



NFIB Members Presentation to the Legislative Interim Tax Committee

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The Voice of Small Business.®

August 2, 2007

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What is NFIB?

- In 2008, NFIB will celebrate 65 years of providing representation of main street mom and pop businesses to the legislature .
- NFIB's primary goal – and the reason NFIB was founded – is to influence public policy on the state and federal level by bringing the voice of small business to the capitol.
- Because of that - NFIB is the largest small business exclusive organization in the country with the number 1 ranking as most effective business lobby.
- NFIB is recognized as a powerful lobby at all 50 state Capitols; and is sought after for information on issues, advice, testimony and grassroots efforts.

Small Business Matters!

- Over 77 percent of Idaho businesses have fewer than ten employees
- Over 98 percent of Idaho businesses have fewer than 100 employees

» Source: 2002 D&B

D & B Business Listings for Idaho

# of Employees	*	# of Businesses	# of Employees	*	# of Businesses
• 5,000-9,999		1	• 10-24		6,290
• 2,500-4,999		2	• 5-9		9,144
• 1,000-2,499		8	• 2-4		28,685
• 500-999		41	• 1		23,000
• 250-499		104	• Unknown		5,867
• 100-249		484	• Total		76,896
• 25-49		2,238			

» Source 2002
D&B

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Small Business is Diverse



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60,000 Businesses with less than 10 employees...we are your neighbors!

- Food
- Service
- Real Estate
- Consulting
- Construction
- Farming
- (just to name a few)

Source:
D&B 2004

Tax Policy vs. Small Business Financing

- The most important source of capital to launch a business is the owner's personal resources
- The most important source of capital for reinvestment and expansion of an established business is earnings retained from business profits, i.e., the amount of money kept after taxes.
- Taxes, in terms of how and when they are levied and the total amount taken, thereby influence the ability of the individual to go into business or to operate a successful business.

Taxes Matter to Small Business

- TAXES are not just an important factor in determining whether a business is sufficiently profitable to continue.
- Small business owners adjust business practices (including entry) to accommodate the incentives and penalties of tax law and regulations.

Two Outlooks on the World

A photograph of a smiling man and woman standing in a field of daisies. The man is on the left, wearing a light-colored shirt, and the woman is on the right, wearing a denim jacket. The image is overlaid with a semi-transparent blue filter.

A rising tide lifts all boats.
John F. Kennedy

When a Russian peasant prays he asks God
not to increase his own stock of cows, but to
reduce that of his rich neighbor.
Russian adage

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Yardsticks to Analyze Impacts of Tax Policy on Small Business

Small business characteristics mean that various types of tax policies have larger impact on small business for each tax dollar collected. Effectively, there are better and worse ways to tax small businesses, ways that are more and less consistent with their capabilities and the way they conduct operations. From these characteristics emerge a few yardsticks for measuring the wisdom and priority of tax proposals impacting small business.

Think of them as tax canons for small business

The canons apply to the population as a whole. They may not always fit individual enterprises or small business. They also can conflict with one another in specific circumstances. Nonetheless, they represent a good starting point for analysis of tax policy initiatives.

In the following measurements, you will see how small business needs you to measure all taxes.

Cash! Cash! Cash!

Tax policy to the extent practicable should alleviate small business cash problems, not exacerbate them.

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Keep it simple!

The second principle of small business taxation is to keep tax compliance and administration as simple as possible.

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Forget taxes on labor!

Traditionally, more small business owners pay more in payroll taxes than in any other form of taxation. In addition, labor taxes must be paid regardless of firm profitability.

The owner cannot be separated from the business!

- Over 85 percent of people owning/operating small businesses on a full-time basis are taxed as individuals. Changes in tax policy affecting individuals therefore directly impact the finances of businesses.
- The reverse is also true.
- Changes in tax policy affecting businesses directly impact the finances of the owner.

What Do Small Businesses Want?

Approximately 34 percent of everything Americans earn is surrendered to one government or another to pay taxes. Small-business owners consistently favor tax cuts. They also prefer balanced budgets and deficit reduction. In fact, in the years that NFIB has polled small business owners, preference for a low tax environment has emerged as perhaps the single most consistent theme.

Source: NFIB Small Business Poll 2004

What Do Small Businesses Want?

- Approximately 34 percent of everything Americans earn is surrendered to one government or another to pay taxes.
- Small-business owners consistently favor tax cuts.
- They also prefer balanced budgets and deficit reduction.
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Source: NFIB Small Business Poll 2004

What is the Common Government Practice With Regards to TAXES?

Policy-makers at all levels commonly fail to appreciate the cumulative tax requirements placed on small firms.

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The Tax Burden is Heavy for Small Business

- Tax administration and collection is heavy.
- Paperwork alone is stunning and disproportionately high.
- Small business is an unpaid agent for the government in collecting and remitting almost one-half of all taxes collected annually.
 - Income tax, sales tax, etc plus anything a locality adds.

Guiding Principles of Good Tax Policy

The following principles are good tax policy...

Source: Guiding Principles of Good Tax Policy: A Framework for Evaluating Tax Proposals. American Institute of Certified Public Accountants. 2001.

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Good Tax Policy

- Equity and Fairness
 - Similarly situated taxpayers, similar taxes
- Certainty
 - Clear rules about when tax paid, how tax paid and amount determined
- Convenience of Payment
 - In a manner convenient for taxpayer

Good Tax Policy

- Economy in Collection
 - Minimum cost for government and taxpayers
- Simplicity
 - So that taxpayers understand and comply correctly and efficiently
- Neutrality
 - Minimum tax effect on decisions to carry out or engage in a transaction

Good Tax Policy

- Economic Growth and Efficiency
 - Tax system not impede or reduce economy
- Transparency & Visibility
 - Taxpayers should know a tax exists and when imposed
- Minimum Tax Gap
 - Tax structured to minimize noncompliance

Good Tax Policy

- **Appropriate Government Revenues**
 - Stability, enable government to predict revenues
- **Tax Base**
 - The broader the tax base, the lower the tax rate.
- **Complexity**
 - As complexity increases, compliance decreases.

Good Tax Policy

- Consistency
 - The more consistent the application, the more “FAIR” it is perceived.
- Purpose
 - Good tax policy should deal with creating a fair, equitable system to finance government programs.
 - Taxes should not be used to solve social problems or to alter behavior; however, necessity sometimes requires it.

Good Tax Policy

- Competition
 - State (and local) government must consider the practices of surrounding states when establishing tax policies.

What we need to survive!

- Fair taxes
- Accessible Health Insurance at a reasonable cost
- Reasonable regulations
- Full opportunity to grow and thrive “for” our community “in” our community

NFIB Tax Priorities for Idaho

- General Tax & Budget Issues
- Not expand Sales Tax Base to include Labor & Services
- Not create Local Option Tax
- Elimination/Phase Out of Personal Property Tax

Our recent ballot positions!

- 1. Would you support providing property-tax relief by shifting tax revenues used to maintain Idaho's schools from local property taxes to the state sales tax?
Yes 57.64% No 34.05% Undecided 8.31%
- 2. Should the state sales tax be raised by 1 cent and dedicated solely to education funding?
Yes 19.41% No 74.39% Undecided 6.20%
- 3. Should the state sales tax on goods be extended to labor and services?
Yes 5.77% No 93.41% Undecided .82%
- 4. Should Idaho require businesses with a certain number of employees to provide health care for their workers?
Yes 9.07% No 86.54% Undecided 4.40%

Source: NFIB Idaho Member
Ballot 2006

All Idaho Tax Policy should be good for Small Business

NFIB is a member only driven organization.

We have spoken!

The majority set the agenda, not just a few,
through our ballot process...
one member, one vote.

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THANK YOU!

Q & A

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